

1980 ANNUAL REPORT

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Place Gas & Oil Company Limited

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FOR THE INFORMATION OF SHAREHOLDERS, THE VALUE OF A SHARE OF
THE COMPANY ON VALUATION DAY, DECEMBER 22, 1971, WAS \$1.00.

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**PLACE GAS & OIL COMPANY
LIMITED**

**Report to
Shareholders**

6 months ended
June 30, 1980

P.O. Box 196
Toronto-Dominion Centre
Toronto, M5K 1H6 Canada

Telephone (416) 364-4283
Cable Address
"Placegas"

PLACE GAS & OIL COMPANY LIMITED

CONSOLIDATED STATEMENT OF EARNINGS (UNAUDITED)

Six Months Ended
June 30, 1980

	1980	1979
Gross Operating Revenue	\$ 669,715	\$ 710,671
Operating Costs	437,326	362,821
Net Operating Revenue before Depreciation	\$ 232,389	\$ 347,850
Depreciation & Depletion, estimated	75,000	65,000
Net Operating Revenue before Extraordinary item	\$ 157,389	\$ 282,850
Extraordinary item (see note A)	562,717	—
Net Income, year to date	\$ 720,106	\$ 282,850
Earnings per share before extraordinary items	\$.0271	\$.0487
Extraordinary items per share	\$.0970	—
Net earnings per share	\$.1241	\$.0487

STATEMENT OF CHANGES IN FINANCIAL POSITION

Source of Funds:		
Earnings before extraordinary items	\$ 232,389	\$ 347,850
Extraordinary items	836,738	—
	<u>\$ 1,069,127</u>	<u>\$ 347,850</u>
Funds applied to:		
Investments and Advances	\$ 162,964	\$ 220,844
Fixed Assets	170,307	940,566
	<u>\$ 333,271</u>	<u>\$1,161,410</u>
Increase (Decrease) in Funds	\$ 735,856	\$ (813,560)
Working Capital, beginning of Year	(38,492)	610,346
Working Capital, end of Period	<u>\$ 697,364</u>	<u>\$ (203,214)</u>

Note (A) — Net of sale of Place/Anschutz property, less applicable income taxes.

To the Shareholders

The sale of the Place/Anschutz property in Lake Erie which netted a gross to the Company of \$1,037,000.00 plus additional acreage, caused the minor decrease in gross operating revenue. Greater drilling activity increased the operating costs.

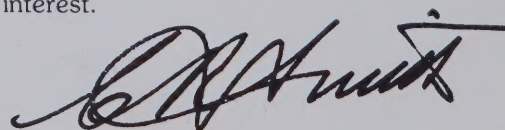
Mitchell Energy Corporation as the Operator, with Place personnel and equipment used wherever possible, have completed the drilling of eleven gas wells on the jointly held Place/Mitchell acreage in Lake Erie. These wells are currently being hydrofractured, tested and pipelined into our joint pipeline marketing system. Although test results are not as yet available, a substantial increase in our gas sales revenue is expected in the latter part of the year.

A successful gas well, Nugate et al Drumheller No. 2-13-30-20 W4M was drilled in the Drumheller Field, Alberta. A drill stem test reported 6½ million cu.ft. of gas per day with a calculated absolute open flow of over 80 million cu.ft. of gas per day. This very large well is located in an area in which gas is currently being sold, and we hope to

participate in the sales contract to market our gas at an early date. Your Company paid approximately 25% of the cost of this well and after payout, retains a 15% interest.

Two wells to be drilled through our United States subsidiary — one in the Woodville Area, Marshall County, Oklahoma and one in Grayson County, Texas — have been delayed owing to drilling rig availability, but are expected to start in early September.

Our Bantry, Alberta, gas reserves are still awaiting approvals for export marketing. Plans are also being formulated for marketing of the Arctic Islands gas in which we hold an interest.



August 12th, 1980
Clifford R.J. Smith
President and Managing Director.

PLACE GAS & OIL COMPANY LIMITED

DIRECTORS

J.D.S. Bohme, Q.C.,	Toronto, Ontario
Sir Michael Butler, Bart., Q.C.	Victoria, B.C.
D.C. Early	Toronto, Ontario
W.H. German	Montreal, Quebec
W.D. Gill, M.A., D.Sc.,	Yorkshire, England
C.R.J. Smith	Toronto, Ontario
E.H. Smouha	Geneva, Switzerland
P.G. Turner	Toronto, Ontario

OFFICERS

C.R.J. Smith	<i>President</i>
Sir Michael Butler, Bart., Q.C.,	<i>Vice-President</i>
H.C. Gibson, B.Sc.,	<i>Vice-President Exploration</i> Calgary, Alberta
J.D.S. Bohme, Q.C.,	<i>Secretary</i>
G.H. Weston	<i>Treasurer</i>

HEAD OFFICE

Suite 3916 — Royal Trust Tower, Toronto, Ontario, M5K 1H6

FIELD OFFICE

Nanticoke, Ontario N0A 1L0

TRANSFER AGENT & REGISTRAR

Canada Permanent Trust Company,
Toronto, Ontario

AUDITORS

Touche Ross Co.
(formerly Gardner, McDonald & Co.)

PLACE GAS & OIL COMPANY LTD. (DELAWARE)

Wholly owned United States Subsidiary Company

Suite 220, Neustadt Plaza,
333 West Main St., Ardmore, Oklahoma, 73401, U.S.A.

PLACE OIL & GAS COMPANY (U.K.) LIMITED

Wholly owned English Subsidiary Company

35 Basinghall Street, London EC2V 5DB, England

PLACE GAS & OIL COMPANY LIMITED

PRESIDENT'S REPORT

To the Shareholders:

On behalf of the Board of Directors it gives me great pleasure to report the Company's 1980 operations, consolidated statement of accounts, current activities and plans for 1981.

After extraordinary items, we were able to show earnings of approximately 11½ cents per share as opposed to a loss last year. The net income improved to a profit of \$658,545 from a loss last year of \$557,598. Revenue from Lake Erie gas sales for 1980 of \$1,162,565 was down approximately \$200,000 from the previous year owing to the sale of our Anschutz revenue-producing acreage and the marketing of the new gas wells drilled in Lake Erie in 1980 not being tied-in until later in the year. However, some of this difference was regained by miscellaneous revenue bringing the total revenue to \$1,347,344. Production expenses were increased this year by \$270,000 by substantial workovers on the joint Place-Mitchell wells. The major expenditure of drilling twelve wells on the jointly held acreage of Place-Mitchell in Lake Erie with Mitchell Energy as the operator, materially reduced our working capital to a deficit position — which will be improved from current income.

The Lake Erie Place-Mitchell drilling program increased the number of producing gas wells in Lake Erie; additional gas reserves were established in Drumheller, Alberta, including a 25% participation in a 1981 oil well at Boundary Lake, Alberta; continued discoveries on adjoining acreage in the High Arctic with progress being made in the Melville Island liquefied gas process for marketing — all point to a substantial improvement in the revenue prospects of your Company in the future. Exploration activity is planned in the United States where more stable economic conditions exist, which should further enhance the scope of our operations.

Lake Erie

Your Company held in good standing offshore Lake Erie at the end of 1980, a 100% interest in 44,809 acres of Leases and Licences of Occupation and a 50% interest in 26,846 acres of Leases and Licences of Occupation.

In Lake Erie during the 1980 drilling season, 12 wells were drilled at a total cost of approximately 3 million dollars — of which Mitchell Energy as the Operator paid 50% of the cost, with Place supplying some of the personnel and equipment wherever possible. Six wells were placed on production and the remaining six held capped. The results of this drilling established an increase of approximately 2½ million cu. ft. of gas per day. However, onshore facilities and final completions at this time do not allow us to utilize this increase to the fullest extent. Your Company now owns 100% — 57 commercial gas wells and 50% — 35 commercial gas wells. In addition to the joint activities with Mitchell Energy, your Company owns its own gathering system under Lake Erie and continues to sell its gas to the Union Gas Company on the shore of Lake Erie at points located at Selkirk and Port Dover, Ontario and to Consumer's Gas Company at Port Maitland, Ontario. Its Field Office and Operation Yard and marine equipment etc. are located at Nanticoke, Ontario.

Alberta

In view of the uncertainties created politically by the Federal and Provincial Governments, planned activities in Alberta were greatly reduced and marketing plans for the proven gas reserves delayed. However, your Company still holds an interest in 3 wells in the Bantry area of southwestern Alberta with an estimated gas reserve of 3 1/2 billion cu. ft., of which your Company's ownership is 25%. However, this production is capped awaiting marketing arrangements. A success-

ful gas well, Nugate et al Drumheller No. 2-13-30-20 W4M was drilled in the Drumheller Field, Alberta. A drill stem test reported 6½ million cu. ft. of gas per day with a calculated absolute open flow of over 80 million cu. ft. of gas per day. This very large well is located in an area in which gas is currently being sold, and we hope to participate in the sales contract to market our gas at an early date. Your Company paid approximately 25% of the cost of this well and after payout, retains a 15% interest. In early 1981, your Company also participated in the successful drilling of an oil well in a 320 acre lease block in the Boundary Lake Oil Field in Western Alberta. The well, Westhill Boundary No. 6-33 tested at an open flow rate of 408 barrels of 36 gravity crude oil per day. To maintain good oil field practice, the well was cut back to 75 barrels per day which will probably be the allowable. Your Company holds a 25% working interest in this well which will be reduced, after cost payout, to 12½%. Decisions have not yet been reached as to the drilling of a second well. Your Company has a 25% participation in the acquisition of two sections in Township 40, Range 28 W4 Blackfalds Area, near Red Deer, Alberta, and it is planned to drill a well in this area early in 1981.

Canadian Arctic Islands

In the Arctic Islands, located in the Sverdup Basin, your Company holds a 1.35% interest in approximately 830,000 acres and varying interests (.2025% to .675%) in approximately 300,000 acres on the Sabine Peninsula, Melville Island, which includes the bulk of the Drake Gas Field and part of the Hecla Gas Field; also part of the Gas Field located on King Christian Island and part of the Gas Field located on Lougheed Island. (see map).

Pacific Lighting Gas Development Company of California provided certain funds to pay the costs of drilling wells in the Drake and Hecla Fields etc., in return for a call on the gas, which is repayable only out of 25% of the value of gas, when sold.

Your Company's interest in the Arctic Islands is 1.35% of a possible 10 trillion cu. ft. of proven gas reserves. Panarctic Oils Limited, the Operator, with the most advanced underwater technology, is preparing the Drake and Hecla Fields for gas production, and latest plans are to pipeline from the base of the Sabine Peninsula to the south shore of Melville Island, where the gas will be liquefied and transported by L.N.G. tankers down the east coast to Canadian and U.S. markets. The actual completion of this project is expected in the early 1980's. As further gas reserves are developed, pipelining will be considered.

In addition, your Company has a 2.647% interest in 931,000 acres offshore the Hazen Strait just west of the Sabine Peninsula, Melville Island. The Phillips Aquit Hazen F54 Well with Panarctic Oils as suboperator, was drilled from an ice platform in February, 1979. Climatic conditions allowed sufficient time to reach the initial target depth of 10,000' but did not allow the deepening of the well to further horizons expected. Numerous gas showings were encountered but the well was not considered to be commercial and was abandoned. The Whitefish well, located about 100 kilometers to the east of the Hazen Strait holdings, and other wells drilled near Lougheed Island by another consortium, have proven beyond doubt a huge gas reserve. The participants in the Hazen Strait acreage are: 50% Phillips, 10% Panarctic, 25% Aquitaine, 6.175% B.P., 6.175% Prairie, and 2.647% Place. The Hazen Strait group are currently participating in a more detailed seismic program to establish drilling locations. Your Company is also participating in a seismic program with Panarctic Oils in the proven Drake Field on the Sabine Peninsula, Melville Island to establish well sites at deeper horizons.

United States

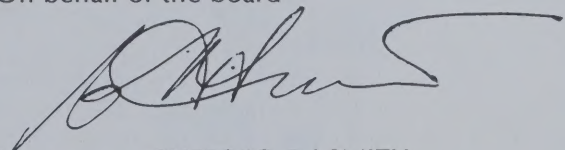
Our current land holdings under Lease in Oklahoma and Texas total approximately 2,700 acres.

In the Texhoma area, Grayson County, Texas, the Guilloud No. 2 Well was drilled to the Novaculite Formation without success. Your Company is continuing to receive modest oil production from the Richardson Well, North McCarty Area, Garvin County, Oklahoma; and also holds a capped gas well in the Pottsboro area, Grayson County, Texas.

Your Company, like so many other Canadian companies is conducting extensive studies for participating in the exploration in the United States — where the economic climate is more favourable than the uncertainties of Western Canada.

On behalf of the Directors, management sincerely acknowledges the support of its staff and the support and confidence received from its shareholders and cooperation of its exploration associates.

On behalf of the board



CLIFFORD R.J. SMITH
President and Managing Director
April 6th, 1981

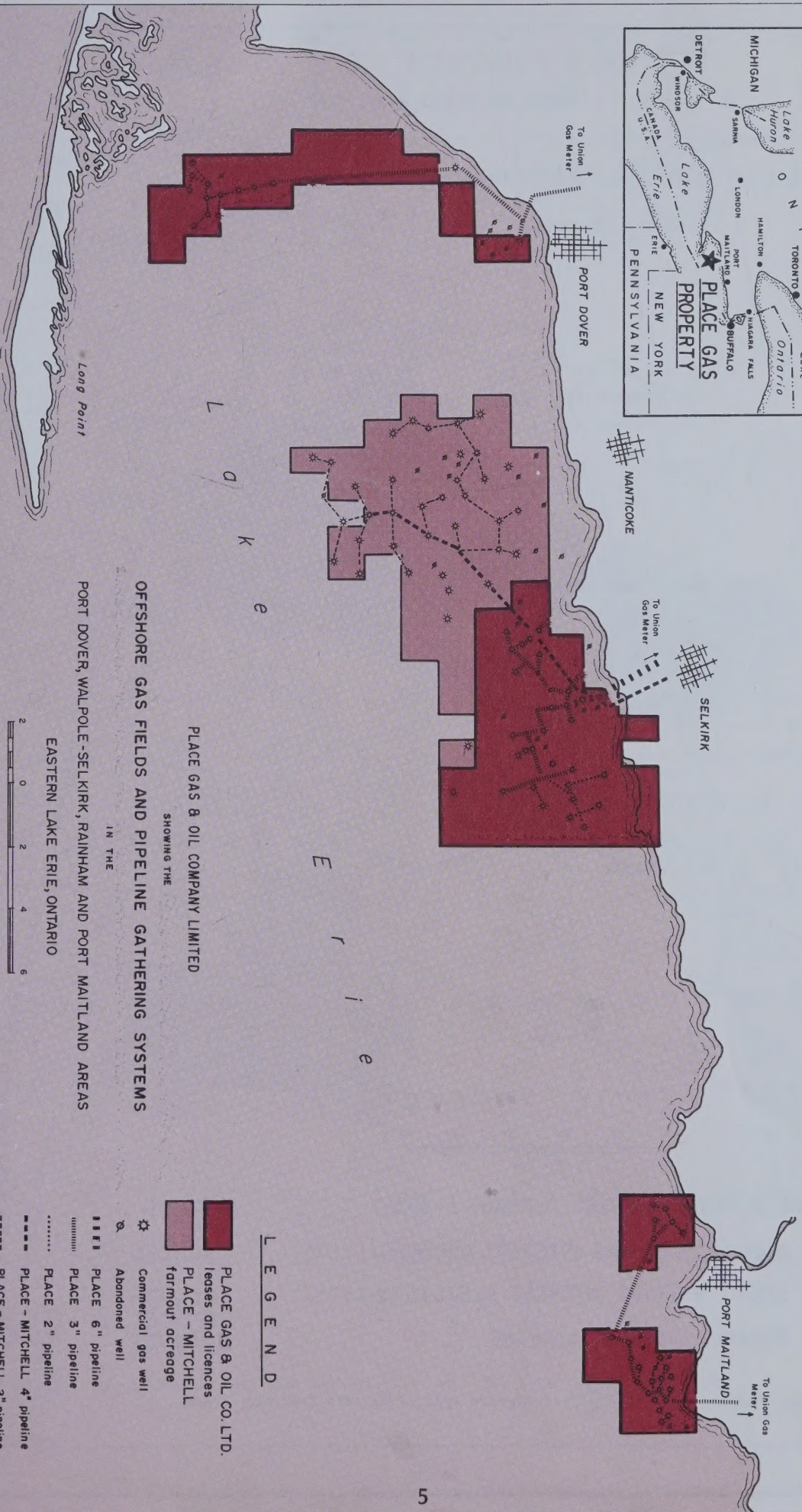
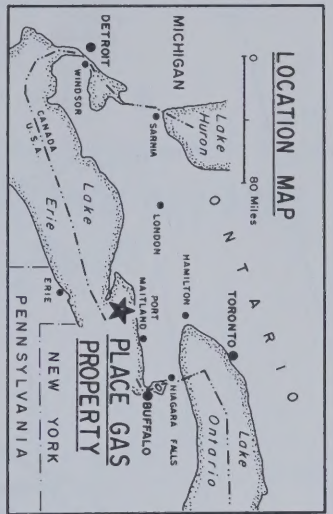
PLACE GAS & OIL COMPANY LIMITED

Original Arctic Islands Holdings

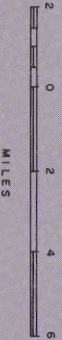
<u>Location</u>	<u>Operator</u>	<u>Total Acreage</u>	<u>Net % Interest</u>	<u>Permit Numbers</u>
Sabine Peninsula Melville Island	Panarctic Oils Ltd.	689,145	1.35	472, 474 & 477 to 488
King Christian Island	" "	81,356	1.35	503, 506 & 870
Lougheed Island	" "	57,210	1.35	501 & 502
<u>TOTAL Original Holdings</u>		<u>827,711</u>	Acres	

After Acquired Arctic Islands Holdings

<u>Location</u>	<u>Operator</u>	<u>Total Acreage</u>	<u>Net % Interest</u>	<u>Permit Numbers</u>
West Sabine Peninsula (Hecla Gas Field)	Panarctic Oils Ltd.	30,420	.675	1832
		30,601	.675	2474
		30,148	.675	2473
		15,210	.675	2715 (1/2)
		14,938	.675	3132 (1/2)
		<u>121,317</u>		
East Sabine Peninsula (Drake Gas Field)	Panarctic Oils Ltd.	30,057	.2025	1829
		30,148	.3375	1985
		30,601	.675	701
		30,601	.675	702
		<u>121,407</u>		
North Sabine Peninsula	Panarctic Oils Ltd.	29,151	.54	1568
		29,151	.54	1567
		<u>58,302</u>		
Hazen Strait	Phillips Petroleum	931,000	2.647	2699 to 2714
<u>TOTAL After Acquired Holdings</u>		<u>1,232,026</u>	Acres	

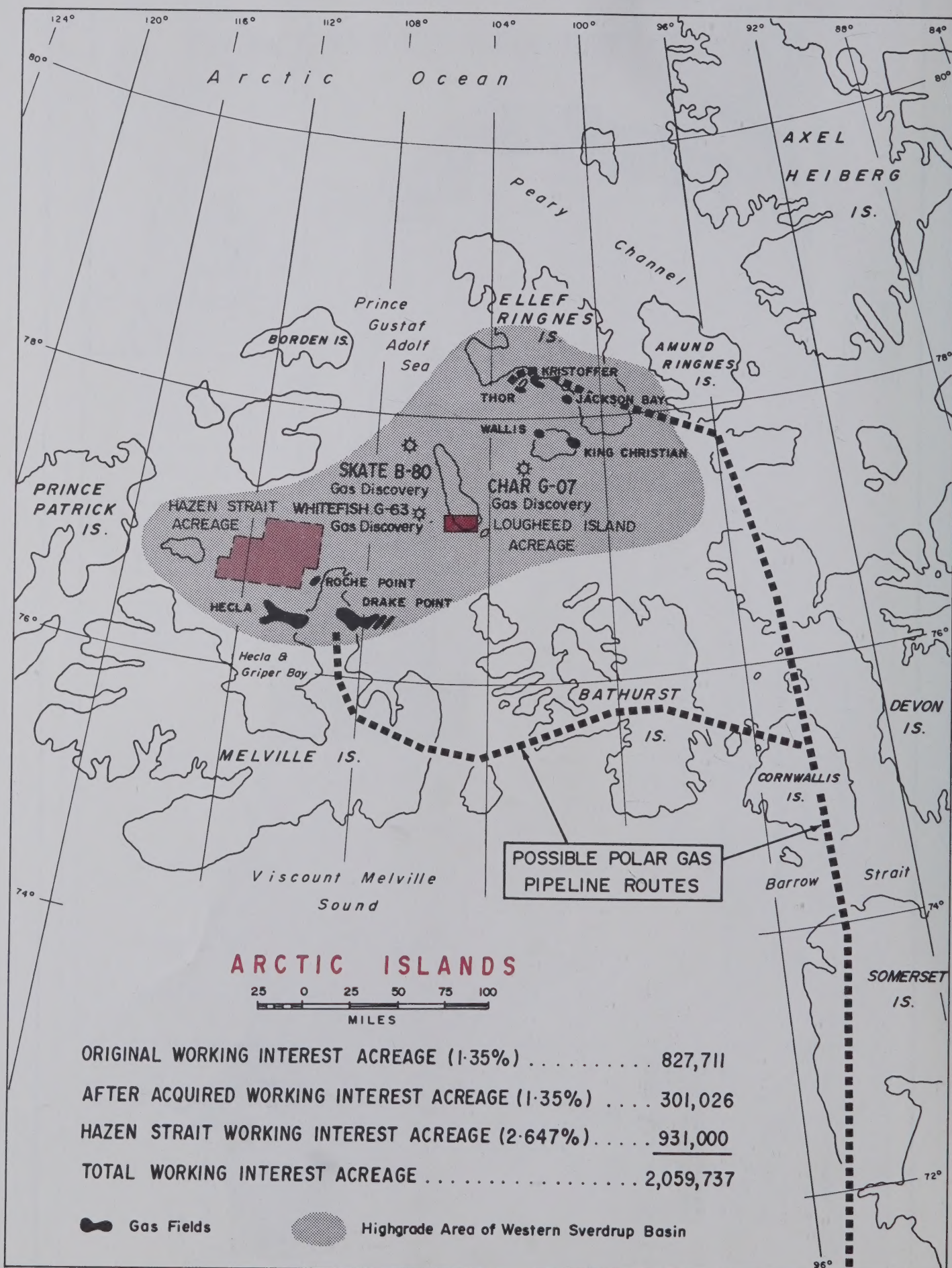


PLACE GAS & OIL COMPANY LIMITED
SHOWING THE
OFFSHORE GAS FIELDS AND PIPELINE GATHERING SYSTEMS
IN THE
PORT DOVER, WALPOLE-SELKIRK, RAINHAM AND PORT MAITLAND AREAS
EASTERN LAKE ERIE, ONTARIO



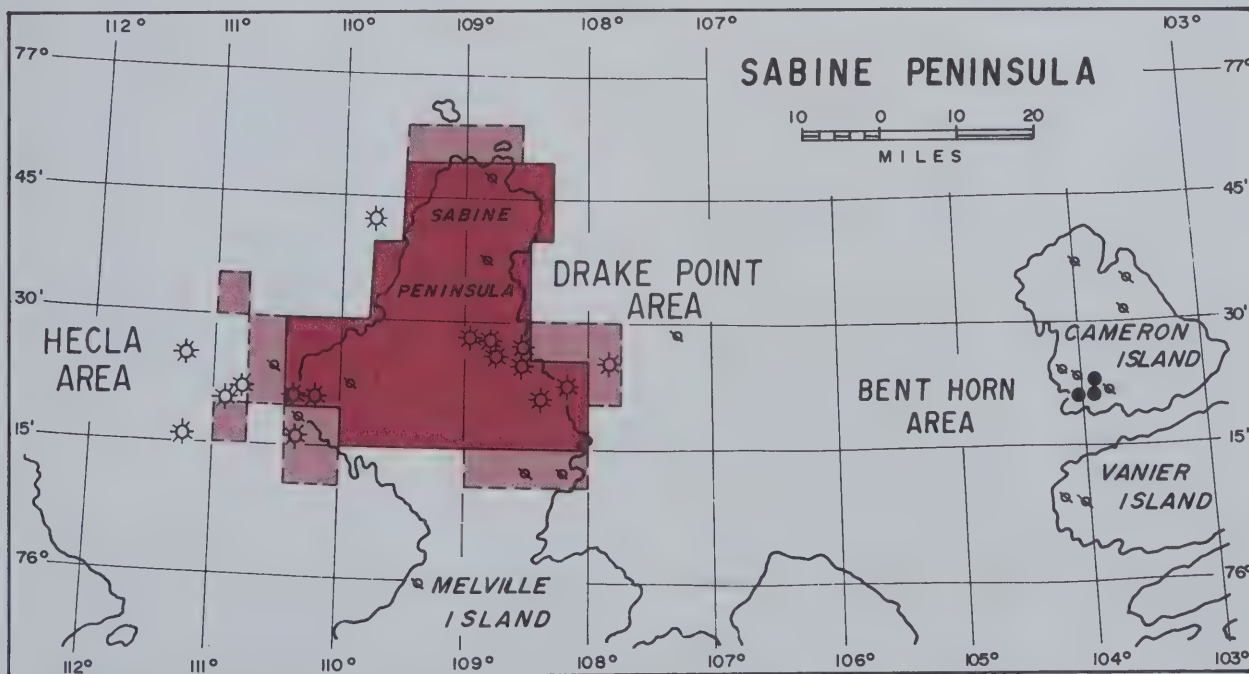
LEGEND

- PLACE GAS & OIL CO. LTD.
- ledges and licences
- PLACE - MITCHELL farmout acreage
- Commercial gas well
- Abandoned well
- PLACE 6" pipeline
- PLACE 3" pipeline
- PLACE 2" pipeline
- PLACE - MITCHELL 4" pipeline
- PLACE - MITCHELL 2" pipeline



PLACE GAS & OIL COMPANY LIMITED

CANADIAN ARCTIC ISLANDS



PLACE GAS & OIL COMPANY LIMITED

CONSOLIDATED BALANCE SHEET

as at December 31, 1980

ASSETS

	<u>1980</u>	<u>1979</u>
Current		
Cash and short term deposits	\$ 210,180	\$ 2,722
Accounts receivable	129,176	178,100
Prepaid expenses	46,193	48,747
Income taxes recoverable	39,183	—
Marketable securities, at cost		
(market value 1980 — \$142,592; 1979 — \$150,983)	121,514	135,680
	<u>546,246</u>	<u>365,249</u>
Investments		
Interests in oil syndicates, at cost (notes 4 and 5)	1,020,755	971,105
Other investments and interests (note 2)	457,861	313,772
	<u>1,478,616</u>	<u>1,284,877</u>
Fixed, at cost (notes 1 and 3)	4,449,416	3,219,155
Less: Accumulated depreciation	1,604,526	1,416,535
	<u>2,844,890</u>	<u>1,802,620</u>
	<u>\$ 4,869,752</u>	<u>\$ 3,452,746</u>

LIABILITIES

Current		
Bank advances (note 7)	\$ 204,550	\$ 182,303
Accounts payable	435,489	174,438
Income taxes payable	—	47,000
	<u>640,039</u>	<u>403,741</u>
Amounts payable from future production revenue (note 4)	695,234	646,211
Deferred income taxes	777,140	304,000
	<u>2,112,413</u>	<u>1,353,952</u>

SHAREHOLDERS' EQUITY

Capital stock		
Authorized:		
8,000,000 shares of \$1 par value each		
Issued (note 6):		
5,800,007 shares	3,798,632	3,798,632
Deficit	1,041,293	1,699,838
	<u>2,757,339</u>	<u>2,098,794</u>
	<u>\$ 4,869,752</u>	<u>\$ 3,452,746</u>
Approved by the Board of Directors		

C.R.J. Smith, Director

P.G. Turner, Director

See accompanying notes to consolidated financial statements.

PLACE GAS & OIL COMPANY LIMITED

CONSOLIDATED STATEMENT OF INCOME for the year ended December 31, 1980

	<u>1980</u>	<u>1979</u>
Revenue		
Gas and oil	\$ 1,162,565	\$ 1,380,215
Miscellaneous	<u>184,779</u>	<u>69,260</u>
	<u>1,347,344</u>	<u>1,449,475</u>
Expenses		
Cost of wells abandoned	41,655	957,789
Head office and administrative	245,339	186,274
Production	642,990	363,812
Depreciation and depletion	<u>201,008</u>	<u>152,290</u>
	<u>1,130,992</u>	<u>1,660,165</u>
Income (loss) before income taxes and extraordinary items	<u>216,352</u>	<u>(210,690)</u>
Income taxes		
Current	—	47,000
Deferred	<u>118,000</u>	<u>304,000</u>
	<u>118,000</u>	<u>351,000</u>
Income (loss) from operations	<u>98,352</u>	<u>(561,690)</u>
Extraordinary items		
Gain on sale of wells	552,017	—
Write-off of other projects and interests	(4,610)	(5,500)
Gain on sale of investments	<u>12,786</u>	<u>9,592</u>
	<u>560,193</u>	<u>4,092</u>
Net income (loss) for the year	<u>\$ 658,545</u>	<u>\$ (557,598)</u>
Earnings per share		
Before extraordinary items	<u>\$.017</u>	<u>\$ (.097)</u>
After extraordinary items	<u>\$.114</u>	<u>\$ (.096)</u>

See accompanying notes to consolidated financial statements.

PLACE GAS & OIL COMPANY LIMITED

CONSOLIDATED STATEMENT OF DEFICIT for the year ended December 31, 1980

	1980	1979
Deficit at beginning of the year	\$ 1,699,838	\$ 1,142,240
Net income (loss) for the year	658,545	(557,598)
Deficit at end of the year	<u>\$ 1,041,293</u>	<u>\$ 1,699,838</u>

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION for the year ended December 31, 1980

	1980	1979
Source of funds		
Income from operations	\$ 98,352	\$ —
Add: Charges not requiring the use of funds		
Depreciation and depletion	201,008	—
Deferred taxes	473,140	—
Funds from operations	772,500	—
Gain on sale of wells	552,017	—
Gain on sale of marketable securities	12,786	9,592
Increase in amounts due from future production revenue	49,023	40,860
	<u>1,386,326</u>	<u>50,452</u>
Application of funds		
Loss from operations	—	561,690
Less: Charges not requiring the use of funds		
Depreciation and depletion	—	152,290
Deferred taxes	—	304,000
Funds applied to operations	—	105,400
Purchase of fixed assets	1,243,278	271,866
Interest of oil syndicates	49,651	274,746
Other investments	144,088	41,778
Write-off of other projects and interests	4,610	5,500
	<u>1,441,627</u>	<u>699,290</u>
Decrease in funds	(55,301)	648,838
Funds (deficiency) at beginning of the year	(38,492)	610,346
Deficiency of funds at end of the year	<u>\$ (93,793)</u>	<u>\$ (38,492)</u>
Represented by working capital deficiency		
Current assets	\$ 546,246	\$ 365,249
Less: Current liabilities	640,039	403,741
	<u>\$ (93,793)</u>	<u>\$ (38,492)</u>

See accompanying notes to consolidated financial statements.

AUDITOR'S REPORT

To the Shareholders of
Place Gas & Oil Company Limited

We have examined the consolidated balance sheet of Place Gas & Oil Company Limited as at December 31, 1980 and the consolidated statements of income and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Gardner, McDonald & Co.
Chartered Accountants
Toronto, Ontario
February 20, 1981

PLACE GAS & OIL COMPANY LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the year ended December 31, 1980

1. Significant Accounting Policies

- a) Basis of Consolidation
 - (i) These consolidated financial statements include the accounts of the company and its wholly-owned United States subsidiary.
 - (ii) The United Kingdom subsidiary has surrendered its offshore leases and retains an interest in one land lease, and consequently the company wrote down its investment in the United Kingdom subsidiary to a nominal value of \$1 which it has not consolidated.
- b) Depreciation
Depreciation is calculated on the straight line method at 10% for buildings and equipment.
- c) Depletion
Wells, gathering systems and oil and gas rights are depleted by the unit of production method based on estimated gas reserves. The unamortized costs of an abandoned well are charged against income at the time of abandonment.
- d) Income Taxes
Income taxes are accounted for by the tax allocation method. As allowed by the relevant income tax provisions and regulations, the company has claimed certain deductions for income tax purposes in excess of the amounts charged to income for accounting purposes. Deferred taxes are provided on these timing differences.
- e) Foreign exchange
Accounts in foreign currencies have been converted to Canadian currency on the following bases:
 - i) Current assets and current liabilities at the exchange rate on December 31
 - ii) Fixed assets and other long term assets, and long-term debt at historical rates of exchange
 - iii) Exchange gains and losses are included in determining net income for the year.

2. Other Investments and Interests

Wholly-owned subsidiary (note 1)	
Shares, at nominal value	\$ 1
Affiliated companies and other interest, at nominal value	1
Shares in Panarctic Oils Limited, at cost	26,250
Securities on deposit, at cost	5,668
Investment in Clarion Resource Program (formerly Sabre Resource Program)	92,800
Investment in Anschutz-Place Alberta Exploration	54,974
Investment in Delta-Place Bantry Area of Alberta	150,460
Investment in New Gateway Munson Area of Alberta	107,207
Investment in Blackfalds Project of Alberta	20,500
	<u>\$ 457,861</u>

3. Fixed Assets

	Cost	Accumulated Depreciation
Land, buildings and equipment	\$ 635,091	\$ 498,998
Petroleum and natural gas interests	221,879	22,051
Producing wells	2,937,040	796,854
Gathering systems	655,406	286,623
	<u>\$ 4,449,416</u>	<u>\$ 1,604,526</u>

PLACE GAS & OIL COMPANY LIMITED

4. Amounts Payable from Future Production Revenue

Under an agreement between Pacific Lighting Gas Development Company of California (Pacific) and Place Gas & Oil Company Limited (Place), Pacific agreed to loan Place funds up to a certain limit in order that Place could meet its obligations relating to exploration costs in certain wells in Panarctic Oil Syndicate. Pacific thereby acquired the right to purchase from Place its share of any gas which may be produced from the said wells.

The loans including accrued interest total \$695,234. They are to be repaid to Pacific only out of 25% of Place's share of the revenue from production wells for which Pacific advanced funds.

5. Interests in Oil Syndicates

The company's interests consist of the following:

- (i) Interests, varying from .2025% to 1.35% in approximately 1,130,000 acres on the Sabine Peninsula, Melville Island and on King Christian Island.
- (ii) A 2.647% interest in approximately 931,000 acres offshore in the Hazen Strait, northwest of the Sabine Peninsula.

6. Capital Stock

	Shares	Par Value	Discount	
Shares issued				
For cash	3,800,007	\$3,800,007	\$ 431,375	
For other consideration	2,000,000	2,000,000	1,570,000	
	<u>5,800,007</u>	<u>\$5,800,007</u>	<u>\$2,001,375</u>	<u>\$3,798,632</u>

7. Bank Loan

Book debts have been pledged as security for the bank loan.

8. Statutory Information

Total remuneration received by directors and senior officers of the company for their services amounted to \$210,000 (\$159,000 in 1979).

9. Comparative Figures

Certain comparative figures have been reclassified to conform with this year's financial statement presentation.



Suite 3916 - Royal Trust Tower, Toronto, Ontario M5K 1H6